DOCUMENT RESUME

ED 115 823 CE 005 646

TITLE	An Analysis of the Federal Bonding Program. Summary. Final Report.
INSTITUTION	Contract Research Corp., Belmont, Mass.
SPONS AGENCY	Manpower Administration (DOL), Washington, D.C. Office of Manpower Research.
PUB DATE	Sep 75
NOTE	56p.; For related documents, see CE 005 644-645
EDRS PRICE	MF-$0.76 HC-$3.32 Plus Postage
DESCRIPTORS	Data Analysis; *Disadvantaged Groups; Employment Services; *Evaluation Methods; Federal Legislation; *Federal Programs; *Indemnity Bonds; Insurance Programs; Program Descriptions; Program Design; *Program Development; Program Evaluation
IDENTIFIERS	Exoffenders; *Fidelity Bonding

ABSTRACT

A summary of the final report analyzing the Federal Bonding Program includes an overview, historical summary and analysis, summary of findings, conclusions, and recommendations. The bonding program provides fidelity bonding for individuals who are normally excluded from insurance policy bonding, including ex-offenders, enabling them to work at jobs for which they would be otherwise ineligible. Data analysis, research methodology and objectives, agency nomenclature, data utilization, categories, limitations, and a case study are discussed in the overview. The material in the historical summary and analysis sections is presented in considerably greater detail in Volume 1 of the final report, Program History. The bases for the summary of findings, conclusions, and recommendation sections are presented in Volume 2 of the final report, Program Analysis. The program's origins began with the passage of the Manpower Development and Training Act in 1962, with subsequent legislation authorizing the bonding program in 1965. Two basic conclusions state: (1) the program appears to be achieving significant results for some ex-offenders at a relatively low cost, but there is insufficient data to determine program impact estimates; and (2) efforts to pinpoint who is best served, and why, should be made to improve program utilization. (LH)

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AN ANALYSIS OF THE FEDERAL BONDING PROGRAM

SUMMARY

FINAL REPORT

September 1975

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CE 005 646

This study was conducted under Contract Number 20-25-75-01 with the Office of Manpower Research and Development of the Manpower Administration U. S. Department of Labor.

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PREFACE

This document presents a summary of the Final Report prepared for an analysis of the Federal Bonding Program from the first Bonding Assistance Demonstration Projects to the present nationwide Manpower Administration effort. The analysis was conducted by Contract Research Corporation from August, 1974 through September, 1975, under Contract Number 20-25-75-01 with the Office of Manpower Research and Development, Manpower Administration, U. S. Department of Labor.

The historical material contained in Sections 2 and 3 of this paper is presented in considerably greater detail in Volume I of the Final Report, Program History. The bases for the findings, conclusions, and recommendations contained in Sections 4, 5, and 6 of this paper respectively are presented in Volume II of the Final Report, Program Analysis.

The research team included Susan Carnduff, who had primary responsibility for preparing Volume II: Carole Miller and Diane Savitsky, who served as research analysts. Hal Shear provided on-going advice and review of major study reports.

Lawrence Bailis served as Project Director for the study under the overall supervision of Joanna Kennedy, Corporate Officer in Charge.

1.0 CRITERIA

1.1 Background: The Federal Bonding Program

Fidelity bonding is a form of insurance utilized to indemnify employers for loss of money or other property sustained through dishonest acts of covered employees. These acts include larceny, theft, forgery and embezzlement. Loss caused by omission or error not involving dishonesty is not covered.

In recent years, fidelity bonding coverage has generally been purchased by employers in the form of a blanket bond, a single policy which collectively covers all officers and employees of the establishment. Other, less used, kinds of bonding include individual bonds (which, as is suggested by the name, cover only one individual for a specified amount of loss), name schedule bonds (which list individual employees and amounts of their coverage), and position schedule bonds (which cover all employees in a given position, e.g., cashier, for a stated amount without listing their names).

The blanket bonds have constituted the largest portion of the market because of their greater administrative simplicity; under blanket bonds there is no need to update the policy whenever personnel actions are taken or new job categories created.

Fidelity bonding is generally considered good financial management practice, and is now utilized by many employers. However, fidelity bonding has stood as a major barrier to the employment of those with police records and ex-offenders because the standard fidelity bonding policies throughout the United States have included the following clause:

> The coverage of this Bond shall not apply to any Employee from and after the time that the Insured or any partner officer thereof not in collusion with such Employee shall have the knowledge or information that such Employee has committed any fraudulent or dishonest act in the service of the Insured or otherwise, whether such act be committed before or after the date of employment by the Insured. (Emphasis added.)

Fidelity bonding underwriters have included this clause because, according to standard fidelity bonding practice, bonds should not be issued at all whenever

there is any reasonable likelihood that an individual might default. In other words, unlike life insurance underwriters, who set premiums according to the degree of risk, fidelity bond underwriters generally seek to avoid risk altogether. In the eyes of these underwriters, previous commission of a dishonest or fraudulent act is an indicator of a likelihood to do so again in the future.*

The Federal Bonding Program emerged from a series of experimental and demonstration (E & D) efforts by the Department of Labor to determine whether ex-offenders and other potential employees excluded by the "fraudulent or dishonest" clause in the bonds were truly such a risk as to be justifiably prohibited from working at certain jobs for the rest of their lives because of a previous "record".

These E & D bonding efforts were planned by the Department of Labor in early 1965, in response to feedback from manpower program operators which indicated that the exclusionary eligibility clause was preventing certain training program graduates from obtaining jobs for which they were otherwise qualified. Specific legislative authorization to attack this problem was obtained in the 1965 amendments to the Manpower Development and Training Act (MDTA). In 1966, E & D projects were implemented at public Employment Service offices in four cities and at six additional sites in order to (a) explore the feasibility and usefulness of a program to overcome the effects of these exclusionary practices on ex-offenders, and (b) to determine the viability and utility of at least one way of doing this: by providing fidelity bonding to some of the groups affected by these exclusionary practices.

It was hoped that if fidelity bonding coverage could be provided for such

* Many insurors state that they waive this restrictive clause whenever employers give them good evidence of the trustworthiness of a potential employee. Some employers and Employment Service personnel, on the other hand, dispute this statement.

presumed "high risk" job applicants, the record of the E & D projects would establish (actuarial) bases for determining the costs of providing special coverage and demonstrate that these applicants were no less trustworthy than the average employee. If this hope were realized, it was further anticipated that insurance companies might be persuaded to modify or eliminate the restrictive bonding eligibility practices that had caused Department of Labor officials to be concerned.

Department of Labor officials responsible for these E & D projects gradually reached the conclusion that the availability of bonding was indeed helping significant numbers of individuals to get jobs for which they were otherwise ineligible. Accordingly, the demonstration projects were expanded to additional sites, to the point where bonding services were available in more than fifty cities in twenty-nine states. In 1970, a decision was reached to transfer the expanded E & D bonding effort to the status of an operational national program, making it available through each of the more than 2400 Employment Service Local Offices in the United States. The changeover took place in 1971, and bonding has continued as a national program to the present time.

Prior to expansion to a nationwide program, the E & D bonding projects were known collectively as the Trainee Placement Assistance Demonstration Projects. Since that time, they have been known as the Federal Bonding Program. For convenience, the phrase "Trainee Placement Assistance Demonstration Projects and the ensuing Federal Bonding Program" is hereafter abbreviated to read "the bonding program".

1.2 Research Objectives

As indicated in the research design for this study, the overall analysis of the bonding program has been directed to meeting nine objectives:

- To provide an accurate record of the evolution of the bonding program from the passage of the initial authorization in the Manpower Development and Training Act of 1962, as amended in 1965, through the passage of the Comprehensive Employment and Training Act (CETA) in December, 1973, focusing upon key events in that evolution.

- To provide insights into the interests and expectations of key Department of Labor staff members.
- To provide an accurate record of the insurance industry's attitudes and policies towards bonding those with criminal records and those who are bad credit risks.
- To provide an insurance industry perspective of Department of Labor activities under the bonding program.
- To provide systematic data concerning the bonding and post-bonding experiences of program participants.
- To provide additional information which may help to explain these differences.
- To provide systematic data concerning the changes in employer attitudes and behavior which followed participation in the bonding program.
- To provide systematic data concerning changes in the attitudes and policies of the fidelity bonding industry which have followed the introduction of the federal bonding program.
- To provide additional information which may help to explain these changes in employers and insurers.*

The first four of these objectives were addressed in the development of a History of the Federal Bonding Program. The major methodological considerations involved in the conduct of the historical analysis are summarized in Section 1.3.1 below; the results of the historical analysis are presented in Sections 2 and 3. The entire History comprises Volume I of the Final Report.

The remaining five objectives were addressed in Program Analysis. The highlights of the methodologies employed in the program analysis are presented in Section 1.3.2; the findings, conclusions, and recommendations which emerged from the program analysis are contained in Sections 4, 5, and 6 respectively. The entire Program Analysis comprises Volume II of the Final Report.

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* Research Design for Analysis of the Federal Bonding Program, pages 2, 5, 9, 16, and 21.

1.3 Research Methodology

1.3.1 Methodology for the Historical Analysis

Data Sources and Data Collection

The historical analysis was based on the collection and analysis of two kinds of information:

- Program documentation -- the written records of the program, including the contracts between the Department and the selected underwriters who have delivered bonding services under the program; intra-Departmental memoranda concerning bonding activities; and correspondence between Departmental officials and other interested parties.

- Recollections of key participants in the conception, development and implementation of the bonding program, including current and former Department of Labor officials and executives in the fidelity bonding industry.

Data collection was accomplished through interviews with key participants in the evolution of the program and through review of historical files. Interviews were completed with more than twenty Department of Labor and insurance industry officials; most of them also provided access to their files to supplement the interview data.

Data Analysis

The collected data were analyzed with two ends in mind. The first of these was to provide a succinct historical narrative, a chronological listing of the major events in the history and evolution of the program. The second of these was to review all available information in order to obtain explanations of how and why the program evolved as it did.

It is inevitable that explanatory analyses involve the use of judgment. Whenever possible, the data or other evidence used to provide explanation is presented either in the text or in footnotes. The sources of quotations are not identified, at the request of some of our interviewees. Similarly, the senders and receivers of memoranda are identified only by the organizations in which they were working at the time.

Agency Nomenclature

Straightforward historical description of Departmental manpower programs is hampered by the frequent reorganizations and multiple program activities of the Manpower Administration which took place in the mid and late 1960's. Regardless of the changing names of some of the offices involved, however, the planning and implementation of the bonding program appears to have been a cooperative effort between the agency within the Manpower Administration with responsibility for experimental and demonstration (E&D) activities, and the organization with responsibility for administering the public Employment Service at the National Office level.

During the period when the bonding program was considered and designed, the E&D responsibility was assigned to an organization known as the Office of Manpower, Automation and Training (OMAT). By the time the program was implemented, the E&D responsibilities had been assigned to the Office of Special Manpower Programs within the Office of Manpower Policy Evaluation and Research (OMPER). Coincident with the further evolution of the program, the E&D agency became known as the Office of Research and Development (ORD) within the Office of Policy Evaluation and Research (OPER).

OMAT, OMPER, and OPER are basically the same office with different names. The Office of Special Manpower Programs was established to conduct E&D programs, and was later merged with the Office of Research to form ORD. But despite these name changes, E&D responsibilities remained in the same unit in the same overall office.

The same pattern was present with respect to the Employment Service. The responsibility for coordination of the bonding program with State Employment Service Local Offices was initially assigned to the Manpower Administration's Bureau of Employment Security (BES). Subsequent Departmental reorganizations led to a separating out and regrouping of the National Office agencies with responsibility for the public Employment Service, the Unemployment Insurance

Service, and the various Departmentally funded employment and training programs. As a result of these reorganizations, responsibility for coordination with ES local Offices was then held by organizations known as the United States Training and Employment Service (USTES) and the United States Employment Service (USES).

As in the E&D case, the Employment Service responsibilities for the bonding program stayed with the same staff unit even though the parent organization's name and broad jurisdiction was changing.

Because their organizational restructurings did not appear to have any direct effect on the evolution of the bonding program, the organizational designations OPER and USES are used throughout this report, even when the names of their predecessor agencies were different.

1.3.2 Methodology for the Program Analysis

As originally planned, the program analysis was to encompass statistical analysis of a wide range of data including data collected on program participants by the Department of Labor and by its contractor/underwriters, and supplementary data to be collected by Contract Research Corporation. During the course of researching and preparing the Program Analysis, it became clear that it would not be appropriate or even possible to engage in comparative analysis of the data available on the bonding program. However, considerable data were available, or were obtained in the course of this study, which did lend themselves to descriptive program analysis. Consequently, the purpose of the report evolved to the presentation of descriptive analysis of the manner in which the program was utilized during the period 1966-1974.

"Program utilization" refers, on the one hand, to the basic characteristics of program operations such as where bonding occurred, at what rate, for how long, covering how many individuals, in what types of jobs, at what loss ratio and so on. On the other hand, program utilization also refers to the achieved results of those operations for those involved; that is, were employers satisfied with

their employees covered under the program? Were commercial underwriters affected by the experience accumulated under the program? Was the employability potential of bondees improved through participation in the program? The operational characteristics are primarily the result of quantitative analysis of data accumulated over the eight years of the program's existence. The results for participants reflect the reported direct effects upon the individuals or organizations affected by the program: the bondees, the employers and the fidelity insurance industry.

Approach to Data Utilization

The approach to data utilization employed in the Program Analysis was a simple one: to draw the best possible conclusions from a wide range of program data of widely varying quality. The issues of fragmentary or inconsistent data, and inconclusive results, arose frequently. This reflected not only problems of inconsistent reporting in the available data (Department of Labor supplied), but also low response rates from the bondee and employer follow-up surveys conducted as part of the Program Analysis. While it would have been possible to improve the quality of certain individual data sets (e.g. increase the sample sizes) through the application of additional resources, an effort was made to conduct the study in a manner which would utilize this wide range of data sets. Project resources were allocated in order to address all the investigative avenues outlined in the Research Design to a greater or lesser extent.

Data Categories

The types of data which were provided by the Department of Labor or collected by the project team are summarized briefly below. The data which were provided by the Department include the following:

(1) Monthly print-outs and summaries from the McLaughlin Company which include the name of the bondee, the employer, state or sponsor, the time of bonding, and the number of units of coverage for each bondee in the program.

(2) MT-110 forms on approximately 1900 of the bondees. These forms include information on the demographic characteristics, employment history and criminal record, if any, of bondees in the

bonding program between 1966 and 1970. In addition, MT-110 forms from Illinois on all but two bondees in that State became available late in the project, covering the entire period between 1966-1974.

(3) Claims data from the McLaughlin Company on the essential information related to the claims submitted by employers. Included in most cases are the name of the bondee, the claimant, the dates of claim and resolution, the amount of claim and amount of payment.

The information collected primarily by Contract Research Corporation includes:

(1) Information on bondee employment, utilizing the Standard Industrial Classification numbers for business and industry.

(2) Information on demographic characteristics of Illinois residents, using Census of Population data.

(3) Illinois inmate characteristics.

(4) Post-bonding information on employers and bondees.

(5) Information on the fidelity insurance industry and on a similar fidelity bonding program in Canada.

(6) Information on related insurance programs funded by Federal agencies.

All study data were received in raw form; much of it was incomplete, and some of it was inaccurate. Therefore, considerable effort was expended simply in preparing the data for processing, including correction of obvious errors. It was also determined that a rigorous attempt at determining causal relationships between variables was not appropriate because of the gaps which existed in most of the available data. Instead, much effort has been devoted to providing accurate descriptive information, from a variety of perspectives, which constitutes a basic reference document on the bonding program between 1966 and 1974.

In searching for conclusive indicators and/or reliable inter-relationships between different types of data (e.g., claims submitted and length of bonding period) a significant number of tabulations, charts and miscellaneous data items have been accumulated. A concerted effort was made to cull, integrate and present only the most relevant, useful or thematic results in the program analysis.

The Illinois Case Study

The existence of major data gaps, and the uneven quality of the data available for the entire bondee population, led to a decision to utilize a case study approach involving in-depth analysis of the data from the State of Illinois, the only jurisdiction for which MT-110 forms (and hence a wide range of demographic and job related information) are available for all program participants.

As a result of the availability of Illinois MT-110 forms, it has been possible to create a relatively complete profile on the Illinois sub-set of program participants, including:

- Program utilization data on Illinois bondees drawn from the McLaughlin monthly progress reports.
- Claims data on Illinois bondees drawn from the McLaughlin claims reports.
- Selected elements of personal and employment history from the Illinois MT-110 forms.
- The Standard Industrial Classification data on Illinois bondees assigned from SIC manuals.
- The responses of Illinois bondees to a mailed follow-up instrument.

It should be noted that no claim is being made as to the statistical representativeness of the Illinois bondees as compared to all the participants in the program. However, Illinois has been in the program since its inception, has had the second largest number of participants, and has had participants with a varied mix of characteristics. It is both reasonable and instructive, therefore, to use Illinois as an illustrative case study for many aspects of the bonding program.

Data Limitations

As indicated above, there are wide variations in the legibility, accuracy, consistency and availability of data on the utilization and results of the bonding program. Additionally, the problem of collecting reliable data using sample survey techniques and existing sources of information was recognized at the outset of this study. Therefore, care was taken to test the feasibility of each aspect of the study (bondee and employer) before initiating the final surveys. These feasibility or pilot studies are presented as appendices to Volume II.

In each case, the results of the feasibility studies indicated, that with certain modifications, proceeding to the full scale survey was justified in terms of the research objectives and taking into consideration resource constraints and the lack of other data sources. The table below presents the data categories and the appendix of Volume II in which each is discussed.

Data Category	Feasibility Report Title	Appendix Source
McLaughlin Monthly Computer Printouts	Initial Conclusions Drawn From Available Data for an Analysis of The Federal Bonding Program pp. 2-7	Appendix A
MT-110 Forms	Same as above, pp. 8-14	Appendix A
Claims Data	Same as above, p. 15	Appendix A
SIC	Assignment of SIC Categories to Bonded Jobs	Appendix B
Post Bonding Information from Employers	Report on Employer and Bondee Survey Pretest, pp. 2-5	Appendix C
Post Bonding Information on Bondees	Report on Employer and Bondee Survey Pretest, pp. 6-16	Appendix C
	Bondee Follow-Up, Summary Pretest Phases I & II	Appendix D
	Update on Bondee Survey Data (Phase IV)	

In short, the conduct of the analysis of the Federal Bonding Program has reaffirmed several common research problems in addition to the well-known drawbacks of research on offender rehabilitation programs in the manpower field: the difficulties of drawing iron-clad conclusions from dated and incomplete data; the virtual impossibility of obtaining follow-up data after individuals have left a program if no provision for such longitudinal follow-up has been made in advance; and the lack of incentive or even reluctance on the part of respondees.

The elapsed time between the period when many individuals were bonded and the conduct of this study has greatly complicated the problem of filling in gaps and correcting errors in the data. The recovery of missing data (data that should have been supplied to the Department in the form of MT-110 forms) proved to be a particularly difficult task; many MT-110 forms were totally unrecoverable. Reconciling discrepancies in other data sources (such as the McLaughlin monthly progress reports) has also proven to be virtually impossible.

The employer follow-up survey was primarily affected by the passage of time (many firms had gone out of business) and some employers' disinclination to confirm participation in the program.

The problems involved in conducting follow-up of ex-offender program participants up to eight years after the fact are even more severe. The high rate of geographic mobility of ex-offenders, combined with the active efforts of many ex-offenders to "cover up their tracks" appear to make it impossible to contact a representative sample of individuals who participated in the program more than a year or two ago. Recent bondees, on the other hand, can provide only limited data on the results of the program; they have little or no post-bonding experience.

The inability to use centralized confidential data sources such as the F.B.I. or I.R.S. made location of a substantial number of individual whereabouts impossible. Reluctance to respond may characterize those ex-offenders

who were successful in starting a new life and who have a good deal to lose by being traceable.

It is important to reiterate that these limitations are not unique to the current study. Previous manpower research on the offender or ex-offender population has encountered similar problems. Most instructive are the experiences of Morgan V. Lewis as related in his presentation on "Finding the Hard-to-Locate", in which he reviewed studies which used various follow-up survey research methods.* In the one study which relied on data comparable to our own (6-7 years) Dr. M. Bright, not studying offenders, had an 8% response rate (very comparable to our own).

Even more relevant to the problems of conducting research with offender populations is the experience discussed in An Evaluation of MDTA Training Provided in Correctional Institutions, Volume III.** In this case, however, substantial resources were available to both the original program and the research effort in the form of longitudinal follow-up information systems and a multi-year large-scale research effort (neither of which were available to the bonding study). In fact, most of the recidivism and employment data used in the report was collected only through the institution of an additional follow-up system based upon making contact with incarcerated inmates and offering incentive payments for maintaining contact after release from prison. Secondly, the inmate-training evaluators indicated the impossibility of locating ex-offenders who had been released for comparatively short periods of time: many of them within the past year. The problems of follow-up are, of course, severely exacerbated when, as in the analysis of the bonding program, efforts were made to locate individuals who had left the program as long as eight years prior to the conduct of the study.

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* Morgan, Lewis, "Finding the Hard-to-Locate: A Review of Best Practices," in Evaluating the Impact of Manpower Programs, edited by Michael Borus (Lexington Books: Lexington, Mass., 1972), pp. 145-154.

** Report prepared by ABT Associates, May, 1971, under Contract 43-9-008-23 to the U.S. Department of Labor, Manpower Administration.

In a recent Manpower Administration evaluation of a Pre-Trial Intervention Program, follow-up was not even attempted with certain classes of study subjects because of locational difficulties.*

It was the opinion of both the Contract Research Corporation research team and the Office of Policy, Research and Evaluation Project Officer, that the investment of more resources to improve response rates was not consistent with the overall program analysis objectives of this study. Within the limitations imposed by the size and length of the study, it was decided to expend the bulk of the data analysis resources on program analysis rather than on attempts to increase data reliability which were considered to have a marginal chance of success. This decision was directly tied to the poor quality of the data originally obtained for the Department of Labor and the low response rate in both the pilot and the actual surveys. In each case, the separate selection of samples resulted in nearly identical response rates. There was no justification for allocating both the substantial time and moderate expense of an additional survey. As should be quite clear from our discussions of each of the data categories in the appendices of Volume II, working with material collected seven and eight years ago for non-research purposes involved substantial problems beyond those specifically inherent in offender research and generally in retrospective data analysis. In summary, therefore, the study team felt it more important to focus its energies on explaining what data was available rather than on chasing statistical purity.

* Pre-Trial Intervention: A Program Evaluation, report prepared by ABT Associates, July, 1974, under Contract 83257206, for the U. S. Department of Labor, Manpower Administration.

2.0 HISTORICAL SUMMARY

The history and evolution of the bonding program can be divided into three phases: the program origins, the design phase, and the implementation phase. The key events in each of these phases are summarized below. These events are described in greater detail in the Final Report, Volume I, Sections 3, 4 and 5 respectively. An overview of these events and their interrelationship with other developments in Department of Labor manpower policy is presented in Exhibit 2-1 at the end of this section.

2.1 The Origins of the Bonding Program

Department of Labor manpower planners began serious consideration of a federally funded program to provide fidelity bonding for ex-offenders in early 1965. Initial inquiries into the need for such a program were made by the OPER Division of Manpower Program Planning (DMPP); the results were considered sufficient to justify moving ahead with an experimental and demonstration (E&D) project.

Although the Department already had broad enough authority to proceed with such a project, the Secretary of Labor made a point of directing Congressional attention to the bonding problem and sought a specific legislative authorization to give it prominence. Accordingly, the Departmental draft of the 1965 amendments to the Manpower Development and Training Act (MDTA) of 1962, included a section which directed a "Trainee Bonding Demonstration Project" to be conducted. This draft was submitted in February, 1965, and was received favorably by both the House and Senate committees.

The draft amendments were enacted into law in April, 1965. Section 105 of the new legislation, entitled "Trainee Placement Assistance Demonstration

Projects", directed the Secretary of Labor to

> ...develop and carry out experimental and demonstration projects to assist in the placement of persons...who after appropriate counseling have been found by the Secretary to be qualified and suitable for the employment in question, but to whom employment is or may be denied for reasons other than ability to perform, including difficulty in securing bonds for indemnifying their employers against loss from the infidelity, dishonesty, or default of such persons.*

2.2 The Design Phase

With the passage of the 1965 amendments, the responsibility for designing a bonding program to implement Section 105 was assigned to the OPER Division of Manpower Program Planning. A DMPP staff paper issued in September, 1965 made the following basic recommendation: "that the Manpower Administration enter into a contract with a bonding company which operates nationwide to provide uniform coverage to all the individuals who are to receive placement assistance under the program." Other recommendations included the following:

- The master bond would cover those individuals selected by the State Employment Security Agency pursuant to Manpower Administration policies and instructions without...screening of individuals or employers by the bonding agency.
- Administration of Section 105 (should) be delegated to OPER (and that OPER should)... design the overall pilot bonding program and develop and issue, in consultation with appropriate bureaus, instructions for participating in the activity.
- State employment security local offices which have suitable unemployed applicants...(should) submit through regular administrative channels requests for an allocation of an appropriate number of bondee slots. E&D contractors or other agencies (should) request allocation of bondee slots directly from OPER.

Following the acceptance of this basic program design, the DMPP staff collaborated with the United States Employment Service (USES) and Office of the Assistant Secretary of Labor for Administration (OASA) staff in the development of specific program guidelines and the procurement instrument respectively.

* The full text of Section 105 is contained in the Final Report, Volume I, Appendix A.

These documents--Manpower Administration Order (MAO) 2-66, specifying the guidelines, and Invitation for Bids (IFB) 66-17, specifying the contractual terms--were issued in February, 1966.

A single response to the procurement was received in March. This bid involved an offer by the United Bonding Insurance Company of Indiana (and its agent, the Washington-based McLaughlin Company) to supply units of bonding coverage of $500 per month at a rate of $5 per unit.*

The single bid by United Bonding was considered excessive, and so the IFB was transformed into a negotiated procurement. Negotiations between the Department and United Bonding resulted in a lowering of the proposed premium to $1.75, and a contract between the two was signed shortly thereafter.

2.3 The Implementation Phase

2.3.1 Bonding as an E&D Project

Following the signing of the contract with United Bonding, OPER and USES staff collaborated in the selection of initial sites for the program, development of a program reporting system, and training of local service deliverers ("Sponsors") in their program responsibilities.

By June, 1966, the program was operational in ES offices in New York City, Chicago, Los Angeles, and Washington, D.C., and in six E&D projects--four in these cities and two in correctional institutions.**

*A bonding unit was defined as $500 of coverage for a period of one month. In other words, $1000 coverage for one year would have been the equivalent of 24 units of coverage. Calculation of bonding premiums on the basis of units used provided the Department with considerable flexibility in administering the programs.

**The six projects were the Mobilization for Youth project in New York City, the Job Opportunities through Better Skills (JOBS) project in Chicago, the Economic Youth Opportunities Agency in Los Angeles, the United Planning Organization in Washington, Project Challenge at Lorton, Virginia, and the Draper Correctional Center at Elmore, Alabama.

Requests from other cities for participation in the program were received by OPER staff within months of its initial implementation. Bonding was made available in Kansas City in October, 1966, and in San Francisco in November of that year, but not in other cities which had also expressed interest.

In February, 1967, decisions were made to expand the program to the designated target cities of the President's Committee on Manpower (PCOM)--the future CEP I sites--and to cover all ES offices in the states of New York, Illinois, California and Missouri.

In addition, a commitment was made to expand the program by providing bonding to participants in the so-called "Section 251" inmate training projects which were being planned and implemented in 1967 and 1968.* This expansion, which took place in September, 1969, and the addition of a few other cities which had been included prior to that date, led to a set of Trainee Placement Assistance Demonstration Projects which covered all parts of the country. By the close of 1969, there were bonding projects in 51 cities in 29 states, 6 of which were statewide, and in the District of Columbia.

During the five-year period in which the bonding program was an E&D project, a number of significant modifications in program design occurred. In 1969, for example, the United Bonding Insurance Company agreed to a 60% reduction in the bonding premiums, from $1.75 per bonding unit to 70 cents per unit. In 1970, United agreed to an OPER request to accept responsibility for covering bonding

*The 1966 amendments to the Manpower Development and Training Act included a Section 251 which authorized the Secretary of Labor to "develop and carry out experimental and demonstration programs of training and education for persons in correctional institutions who are in need thereof to obtain employment upon release." The ensuing inmate training projects were therefore known as Section 251 projects. For a fuller history and evaluation of these projects see An Evaluation of MDTA Training Correctional Institutions, Abt Associates, 1971.

program participants after eighteen months in the program if the employers of these bondees could make no alternative arrangements and if they were specifically asked to do so by the bonding Sponsor.

In addition, the Department received a number of reports from individual bonding projects and the McLaughlin Company which gave important indications of bonding program usefulness. A report covering several months in one State indicated that for each person bonded under the program, there were eight others whom the State Employment Service had placed without having to write a bond, merely because the prospective employer was told that the job applicant could be bonded if the employer really thought it necessary. A number of Sponsors reported instances in which bonding underwriters agreed to some modifications of previously rigid exclusionary policies.

Department of Labor administrators found it to be particularly significant that the number of bondees for whom claims were paid, as a percentage of the total number of bondees--the "default rate", was never above two percent. This was a positive feature considering the fact that the program was serving the presumably "high risk" rejects from standard fidelity insurance coverage.

2.3.2 Bonding as a National Program

It was the intention of the bonding program designers to develop an experimental and demonstration program which would test the feasibility of one approach to providing fidelity bonding to individuals who could not ordinarily get such coverage, due to exclusionary insurance policies. In general, E&D projects were considered to be of limited duration; either they would prove their usefulness and become incorporated in ongoing manpower programming or they would be terminated to make way for additional E&D efforts. With the passage of time, a conviction grew within the Department of Labor

that the bonding program was indeed demonstrating that some employers would hire persons with a police or criminal record when they found out that the Department of Labor would provide the bonding coverage, and that this coverage could be provided without excessive cost or administrative burden. As a result of these and related considerations, the decision to "go national" with the program was made in the summer of 1970. The decision was announced in United States Training and Employment Service Program Letter (TESPL) 2624, dated January, 1971.

As described in TESPL 2624, the transition to a national program had little impact on the way the program was carried out. Although the National Office administrative responsibility was transferred from OPER to the USES Division of Placement, the responsibilities of State and Local Employment Service Officers remained virtually identical to those of jurisdictions with Statewide sponsorship in the past.

In view of the fact that bonding was no longer an E & D project, the term Trainee Placement Assistance Demonstration Projects was abandoned. Instead, the program became known as the Federal Bonding Program.

In 1971, the United Bonding Insurance Company lost its certification to do business with the Federal Government, and its contractual obligations were assumed by the Indiana Bonding and Surety Company. No modification in program structure or operations resulted from this change.

In 1972, the Department decided to assess the acceptance of the bonding program by the insurance industry, and again opened the program to competitive bidding through a second procurement. RFP L/A 72-73 was issued in April, 1972.

Once again, there was only a single bidder. The bidder in this case was the Summit Insurance Company of New York, with the McLaughlin Company serving as their agent. The new contract was executed on June 30, 1972.

It was virtually identical to the first one, except for the inclusion of a more specific work statement, increased reporting requirements, and an increase in the premium from 70¢ to 85¢ per bonding unit. The increase was based on some statistics presented in the reply to the RFP which showed an increase in paid wages for 1971.

Bonding assistance is recognized as a type of manpower service which Prime Sponsors are authorized to provide under the Comprehensive Employment and Training Act of 1973 (CETA); however, the design and administration of the program have remained unchanged by this legislation since bonding coverage for ex-offenders has been seen as unobtainable at the Prime Sponsor level. Departmental staff are still considering the implications of the shift from categorical programming to manpower revenue sharing for the future administration of the bonding program.

Exhibit 2-1

Historical Overview:

Evolution of the Bonding Program

	Bonding Historical Events	Other Department of Labor Manpower Activities
1962		Passage of MDTA
1963-64		Implementation of MDTA projects; feedback on placements. Initial inmate training projects.
1965	Initial consideration of bonding initiatives by Departmental officials. Passage of Section 105 of MDTA. OPER Planning Paper on bonding.	Secretary's Task Force Report calls for reorientation of ES. OPER Staff Paper recommends major expansion of inmate training. HRD concept introduced in speech by Secretary.
1966	Initial procurement; one response, by United Bonding Insurance Company. Initial implementation of bonding in 4 ES offices and six E&D projects. Expansion to two more cities.	Beginning of effort to implement HRD concept in ES offices. Passage of 1966 amendments to MDTA, including Section 251 authorization of E&D inmate training.
1967	Expansion to CEP I cities. Expansion to statewide operation in four States.	Implementation of CEP in 20 urban and two rural sites begins.
1968	Limited expansion of program continues. Completion of paper providing an analysis of first year's experience with the program.	Implementation of Section 251 Inmate Training Projects begins.

Exhibit 2-1 (cont.)

	Bonding Historical Events	Other Department of Labor Manpower Activities
1969	Lowering of premiums from $1.75 to 70¢ per bonding unit. Expansion to all "251" Inmate training projects. Consideration of expansion to CEP II and NAB-JOBS cities.	Presidential submission of manpower reform legislation as part of "New American Revolution." Evaluation reports on HRD show limited progress in ES reorientation. Expansion of CEP's to 76 sites. Implementation of NAB-JOBS projects begin.
1970	ES commitment of $100,000 of MDTA Title II funds to Bonding. Decision to expand program to nationwide status.	Congressional passage and Presidential veto of Employment and Manpower Act of 1970, including provisions for bonding. (Bonding was not a factor in the veto.)
1971	Bonding becomes a national program.	
1972	Second bonding procurement; one proposal submitted, by Summit Insurance Company of New York.	
1973		Enactment of Comprehensive Employment and Training Act of 1973 (CETA).
1974	Contract for Systematic Analysis of Bonding Program awarded to Contract Research Corporation.	
1975	Bonding contract with McLaughlin/Summit scheduled to expire at close of Fiscal Year 1975.*	

* Contract has been extended through Fiscal Year 1976 with a fourth insurance underwriter.

3.0 HISTORICAL ANALYSIS

The bonding program is one of many operational manpower programs and techniques which were first conceived and implemented as experimental and demonstration (E&D) projects. The Concentrated Employment Program (CEP), the Job Opportunities in the Business Sector (JOBS) program, the Section 251 inmate training projects, the New Careers Program, the Human Resources Development (HRD) concept, and the idea of MDTA Skills Centers can all be traced to exploratory efforts sponsored by E&D.

But the bonding program appears to be somewhat unique in the degree to which it has been adopted by State and local operating agencies without any further categorical authorization of infusion of funds from the Department of Labor. For this reason, it is instructive to review the administrative history of the bonding program in order to isolate some of the major elements which shaped its evolution.

3.1 Program Origins

The origins of the bonding program relate directly to the increased Departmental priority being placed on the problems of disadvantaged job seekers and ex-offenders in the mid-1960's and the consequent focus upon these groups in a series of experimental and demonstration (E&D) projects. These E&D projects were designed to be "active, flexible, probings to explore the new techniques and structures which might better meet the (Manpower Development and Training) Act's objectives;" their purpose was described as "developing knowledge in order to influence the direction of future (manpower) programs."*

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*These quotations have been taken from a discussion of the E&D process contained in the 1969 Manpower Report of the President. That discussion of the E&D process through 1969 is the basic source of descriptions of E&D presented in this Section.

As such, the E&D efforts were at the forefront of the emerging Departmental concerns relating to the employability problems of the "hard core" job seekers, who apparently were not being helped to their fullest employment potential by the existing MDTA training programs. The bonding efforts thus epitomized experimental and demonstration projects in terms of intent. They differed, however, from most E&D efforts in one important aspect; they were specifically authorized by the Congress. Thus the bonding projects--along with a parallel set of labor mobility projects and a subsequent set of inmate training projects--represented cases in which the Department had singled out certain projects for Congressional consideration and in which the Congress responded positively.

The bonding projects were evidently chosen for this priority treatment because of the Department's desire to demonstrate that it was taking direct action to aid in the placement of the disadvantaged and ex-offenders, and because of the promise which bonding held for producing job placements for relatively modest government effort. Although the bonding projects were still forced to compete for staff with other E&D projects, and with ES National Office programs, this direct recognition of the programs (and separate authorization) undoubtedly played an important role in insuring that the program received as much staffing and attention as it did.

3.2 The Design Phase

Two important characteristics of the design phase of the bonding program were the priority attached to maintaining flexibility and the utilization of input from agencies in the Department other than OPER.

The maintenance of flexibility lay at the heart of the E&D approach, which stressed "exploratory research" and the need to answer basic questions

of feasibility and utility of new and innovative approaches as a first step towards improvement and enhancement of operational programs.

This approach explicitly rejected the development and implementation of a formal experimental design to determine whether or not hypotheses should be accepted or rejected. Instead, the approach said, in essence, "we've got a promising idea here; let's try it out and see what happens." Thus, for example, the OPER program designers recognized the likelihood that it would be desirable to modify certain aspects of the bonding program with the passage of time, and therefore never developed a formal, detailed program "model." Program designers likewise did not draw up detailed guidelines for program eligibility, but rather pressed ES Local Office staff to "decide for yourselves" as to who met the criterion of being qualified for a job but unable to be hired solely due to inability to be bonded.

This OPER emphasis upon a flexible, exploratory approach facilitated the modifications in program design which later occurred, and also permitted the implementation of the bonding projects without any extensive National Office monitoring efforts. It also had a number of other important implications for the evolution of the bonding program. In particular, the absence of a formal research design and explicit program goals meant that there were no obvious standards against which program performance should be measured.

During the late 1960's, OPER staff became satisfied that the available statistics, such as number of individuals bonded and default rate, and the supporting testimony from bonding program Sponsors were sufficient to indicate the feasibility and utility of the basic approach. This growing satisfaction, in turn, led to judgments that additional data collection and analysis efforts were not necessary at the time. Due to the difficulty in collecting

data on bondees after the fact, these decisions to eschew additional data collection meant that certain questions concerning program results can never be answered.

The participation of non-OPER staff in the design of the bonding program is a second noteworthy element in this phase of its history. Thus, for example, the inclusion of staff from the USES as early as the program design phase may well have had an important impact upon the widespread acceptance of bonding -- and demand for its expansion -- among Employment Service State and Local Office staff. This recognition of the utility of the involvement of those agencies who might adopt the products of research in the initial development of that research is only now emerging as one of the key findings in the field of research utilization and dissemination.

OPER planners were able to draw upon the expertise of other agencies in the Department as well. Thus for example, the advice of a surety bonding specialist from the Labor-Management Services Administration was of major importance during the design phase. Similarly, once the OPER staff had agreed upon broad program parameters, input from the Office of the Assistant Secretary for Administration (OASA) was critical in the development of a procurement document and procedures to choose the underwriter contractor to implement the program.

In retrospect, it appears that the involvement of the OASA staff resulted in a lessening of program flexibility, which OPER program designers had not anticipated in advance. Despite the fact that OPER staff were stressing a flexible program, the OASA staff were oriented towards the idea of a "tight contract." Thus, the involvement of OASA led to the development of an Invitation for Bids (IFB) which clearly spelled out the responsibilities

of the government and its contractor, and offered participation in the program on a "take it or leave it" basis, with no room for negotiation on any aspect of the program other than premium per bonding unit.

Although a wide range of Department of Labor staff were involved in the program design decisions, this was not true of representatives of the fidelity bonding industry. Some contacts with the Surety Association and other underwriters and brokers were made at this time. But OPER program designers generally believed that the industry would not be responsive to such efforts and therefore they gave a lower priority to contacts with the fidelity bonding industry than to other aspects of project development.

The single response to the initial IFB (and subsequent single response to the RFP) served to confirm these beliefs on the part of OPER officials, and the development of further contacts with the industry continued to be awarded a low priority. As a result, the Department apparently never learned the true nature and extent of industry uneasiness about the program, and about the manner in which the procurements were being handled. Without this understanding, there was no possibility for a Departmental response to the industry's major concerns. While it cannot be said with certainty that better communication with the fidelity bonding industry would have promoted more industry participation in the procurements, or increased institutional change within the industry, the absence of such communication appears to have ruled out any potential for major institutional change.

3.3 The Implementation Phase

As indicated above, E&D projects were intended to represent flexible, exploratory efforts to determine whether or not a given idea was feasible and useful in practice. The bonding program was explicitly designed to be such an effort, and the early years of its implementation phase reflected this

flexibility. With the passage of time, however, the growing conviction that the program had proven useful, without incurring major monetary or staff costs, led to a situation in which there was very little perceived need for further modifications in program design.

During the first few years of the bonding E&D project, perceived problems in program operations led to modifications in the definition of the primary bonding program target group (from MDTA trainees alone to all ex-offenders and others who could be helped by the program), in the policy against promoting the program through publicity, in the maximum amount of money for which an individual could be bonded, and in the maximum amount of time for which an individual could be bonded.

In addition, OPER program administrators remained responsive to requests from State and Local ES Offices, and from other Manpower Administration staff seeking to include bonding as a component of employability development programs. Although Statewide sponsorships were not part of the original concept, they were adopted in response to demand. Although the program was planned on a small scale, it was expanded to support the Departmental program initiatives in the areas of training the disadvantaged and ex-offenders.

When it appeared that further expansion was being limited by lack of administrative resources which could be brought to bear on the program, an innovative arrangement was entered into with an on-going E&D project (the Experimental Manpower Laboratory for Corrections at the Draper Correctional Center at Elmore, Alabama) to explore the feasibility of the project serving as a "central resource unit" for a large-scale bonding program. This utilization of the Draper staff permitted expansion of the program on a far greater scale than had previously been possible, thereby helping to pave the way for a national program.

But after the initial emphasis on program flexibility, there were increasingly fewer indications of operating problems in the program, and thus there was a reduced impetus for change. As a result, the design for the national program remained virtually identical to that of the Statewide sponsorships which had been first implemented in 1967; and with one or two minor exceptions, there have been no changes in the basic bonding program design during the period since it has become a national program.

This absence of change is largely the result of OPER, and later USES, satisfaction with the manner in which the program was operating. After the first year of program operations, it was becoming clear that the bonding program was providing an average of several hundred placements per year for people who could not be placed in those particular jobs without bonding. Moreover, this result was being achieved at a cost which averaged no more than $100,000 per year and with less than a single full-time equivalent staff person at the National Office. The program appeared to be in great demand by State and Local Employment Service officials. There appeared to be little reason to tinker with a "successful program."

Accordingly, OPER and USES staff decided against committing additional staff to the administration of the program, and against committing significant increments of funds to more detailed analyses of program results, because of a belief that, given this "smooth sailing," such staff and funds could be better utilized elsewhere.

These judgments also decreased the likelihood of increased future emphasis on other aspects of the bonding program. In particular, the promotion of institutional change among insurors and employers appears to have been treated as a secondary "objective" by many OPER staff members during the design phase and early years of program implementation. Few concerted efforts were

made at that point to take action to promote such change. With the growing conviction that the implemented approach to bonding was working, there was little incentive to mount new initiatives such as a major effort to bring about institutional change; as a result, the initial assignment of a low priority to this objective appears to have become solidified and has continued to this day.

The impact on the bonding program of the perception that "everything is running smoothly" can be best illustrated by reviewing the planning for the proposed manpower revenue sharing programs of the early 1970's, and subsequent efforts to implement CETA. Neither of these activities appears to have affected the structure and functioning of the bonding program. Departmental consideration of the role of bonding under decentralized manpower systems appears to have been limited to a judgment that there was no need to initiate any changes at this point in time. CETA was seen as placing a variety of major responsibilities on newly designated Prime Sponsors all at once. Departmental planners have viewed bonding as only a modest element in the overall manpower service picture, a smoothly functioning low-cost procedure which is already in place. Therefore, although modification of the bonding program to increase the role of Prime Sponsors has not been ruled out, such modifications appear to have been accorded a low priority, and no such action has been taken.

In conclusion, many of the same factors which have been so important in influencing the evolution of the bonding program in the past still appear to be operating in 1975. The bonding program still represents a major Departmental effort to provide placement services to ex-offenders; it possesses an inherent logic which suggests that the program can be justified almost by

definition; and there is more than eight years of corroborating experience data which indicates that the program appears to be working. Furthermore, the program appears to be providing these benefits without excessive costs, staffing requirements, or any major operating problems.

Given this situation, the program appears likely to continue without extensive modifications in program design unless significant persuasive evidence is developed which suggests that further improvements are possible. To a certain extent, the judgment that it would be impractical to engage in comprehensive data analysis and that the insurance industry would be unresponsive to Departmental initiatives, has lessened the likelihood that these inputs would occur. But the possibility that this evidence may be collected and presented at some point in time remains open.

4.0 SUMMARY OF FINDINGS

The findings of the Program Analysis are discussed in detail in Volume II of the Final Report. As indicated in Section 1.5 of that report, there are many shortcomings in the data bases from which many of the findings are drawn. Therefore, each finding must be considered within the restrictions imposed by the limitations of the data. In order to aid the reader in placing the findings in the proper context, each finding is followed by an indication of the data category upon which it is based and the section of the text of Volume II where it is discussed in greater detail.

1. During the period from June 1966 through the end of July 1974, 6655 separate bonds were issued. (Printout data for all bondees, 2.1.1)

2. During this period 6401 individuals were bonded. (The discrepancy can be explained by the fact that 225 individuals were bonded more than once.) (Printout data for all bondees, 2.1.1)

3. Bonding activity occurred disproportionately in a small number of states. Roughly three of every ten bondings took place in California. Fifteen states had ten or fewer bondings. (Printout data for all bondees, 2.1.2)

4. Roughly half the bondees were covered at the maximum rate, $10,000 of coverage. (Printout data for all bondees, 2.1.1)

5. There has been wide variance in the amount of time individual bondees have been covered. About half the bondees were covered for six months or less. About a quarter were covered for only one or two months. About one in twenty-five was covered for three or more years. (Printout data for all bondees, 2.2.2)

6. There appears to be a pattern in which bonding activity peaks in a given jurisdiction within a year or two of its implementation and then slowly declines. (Printout data for all bondees, 2.2.3)

7. The average cost of the program per bonding has been approximately $ 150.00. (Printout data for all bondees, 2.2.4)

8. The loss ratio -- the ratio of dollars paid in claims to premiums collected -- for the bonding program is somewhat lower than that which has been reported for comparable activities in the fidelity bonding industry as a whole. This may, in part, be a reflection of the fact that premiums for the bonding programs have been considerably higher than those which are standard. (Default data on all bondees, information supplied by the Surety Association of America, 2.3.1)

9. The "default rate" for the bonding program is under two percent. In other words, claims have been paid on fewer than one in fifty bondees. (Comparable figures are not available for the insurance industry as a whole.) (Default data on all bondees, 2.3.2)

10. The claims filed on bondees appear to be occurring disproportionately among some industrial classifications, particularly automobile service stations. (Default data on all bondees; SIC data on 258 of 295 defaulters, 2.3.2)

11. Once an individual has been bonded for one year, the likelihood of a filed complaint upon that bondee is significantly reduced. (Print-out data for 268 bondees, all of those who had claims filed through 1974, 2.3.2)

12. The vast majority of bondees appear to be ex-offenders. (MT-110 data for all Illinois bondees, 2.1.3)

13. Bondees appear to be predominantly non-white. (MT-110 data for all Illinois bondees, 2.1.3)

14. Bondees appear to be overwhelmingly male. (MT-110 data for all Illinois bondees, 2.1.3)

15. The majority of bondees appear to be under 34. (MT-110 data for all Illinois bondees, 2.1.3)

16. Illinois bondees appear to be typical of Illinois inmates in many respects. (MT-110 data for all Illinois bondees, data on Illinois inmates, 2.1.3)

17. Bondees appear to be better educated than the typical ex-offender. (MT-110 data on Illinois inmates, data on Illinois inmates, 2.1.3)

18. In many respects the Illinois bondees appear to be as well-educated as the average citizen of Illinois. (MT-110 data on all Illinois bondees, 1970 Census data on Illinois, 2.1.3)

19. Only 15-20 percent of those individuals eligible for commercial fidelity bonding are currently bonded. (Data supplied by the Surety Association of America, 3.1)

20. Manufacturing, retail, and service appear to be the three major industrial classifications into which the most bondees have been placed. (Print-out data for one-quarter of the bondees, MT-110 data for all Illinois bondees, 3.1.1)

21. Illinois bondees appear to be concentrated in a number of standard industrial classifications disproportionately to the size of those occupations in the total Illinois economy. (MT-110 data on all Illinois bondees, 1970 Census Data for Illinois, 3.1.1)

22. Bondees are working in a wide range of jobs. Some are doing unskilled blue collar work; others are holding down professional and supervisory jobs. (Bondee follow-up mailing, 53 respondents, 3.1.1)

23. The great majority of respondent employers of bondees currently require fidelity bonding for all their employees. (Employer follow-up mailing, 49 respondents, 3.2)

24. The great majority of respondent employers of bondees use blanket bonds. (Employer follow-up mailing, 49 respondents, 3.2)

25. Many respondent employers of bondees have requested waivers of the restrictive bonding clauses from their insurors. (Employer follow-up mailing, 50 respondents, 3.2)

26. A significant proportion of respondent employer requests for waivers of restrictive bonding clauses were turned down by insurors. (Employer follow-up mailing, 23 respondents, 3.2)

27. The respondent employers of bondees were located primarily in inner cities. (Employer follow-up, 35 respondents, 3.2.3)

28. The respondent employers of bondees were primarily in the retail trades. (Employer follow-up mailing, 35 respondents, 3.2.3)

29. The respondent employers of bondees are predominantly large businesses (with twenty or more employees). (Employer follow-up mailing, 35 respondents, 3.2.3)

30. The respondent employers of bondees typically hired three or fewer bondees. (Employer follow-up mailing, 35 respondents, 3.2.3)

31. The respondent employers of bondees overwhelmingly indicated their satisfaction with the performance of their bondees. (Employer follow-up mailing, 35 respondents, 3.2.3)

32. The bonding program does not appear to have been the cause of any significant changes in insurance industry practice relative to bonding ex-offenders. (Interviews with representatives of the fidelity bonding industry, 3.3)

33. The respondent bondees report major increases in salary between their jobs prior to the bonding program participation and their current employment. (Bondee follow-up mailing, 30 respondents, 3.4)

34. The respondent bondees report job retention which is considerably greater than is suggested by the data on time of bonding. (Finding # 6). The majority of bondees held their bonding jobs for more than one year; a significant proportion of them report retention of four years or longer. (Bondee follow-up mailing, 63 respondents, 3.4)

35. There are some indications that an appreciable number of bondees may have been listed on the monthly progress reports as still bonded when in fact they had left their bonding program jobs. (Bondee followup mailing, 63 respondents, Section 3.4)

36. The great majority of respondent bondees feel favorably towards the bonding program. A similar proportion report that they feel that the program was useful to them in getting future jobs. (Bondee follow-up mailing, 32 respondents, Section 3.4)

5.0 CONCLUSIONS

Based on the findings presented in Section 4.0, and taking account of the strengths and weaknesses of the data upon which these findings are based, two basic conclusions can be reached:

1. The bonding program appears to be achieving significant results for at least some ex-offenders at a relatively low cost. But the data are not good enough to develop definitive estimates of program impact.

2. The wide discrepancies in program utilization and results among the bondees suggest that the program has worked considerably better for some bondees than for others. Efforts to pinpoint who is best served and why this occurs should enable the Department to improve the program to reach its full potential in improving the employability of ex-offenders.

These conclusions are based upon ten supporting conclusions. Each of these is presented and explained below:

3. The data do not permit judgments concerning the overall satisfaction of program participants, but a majority of those bondees and employers for whom information is available have indicated strong satisfaction with the program. Similar satisfaction has been expressed by the officials of the public Employment Service and the insurance broker which has serviced all bonding contracts to date.

The attitudes of employers and bondees toward the bonding program are discussed in the Final Report, Volume II, Sections 3.2.4 and 3.4.5 respectively. In each case, the respondents to a mailed instrument reported a good deal of satisfaction; many employers indicated a willingness to hire additional ex-offenders. The satisfaction of the Employment Service and of the insurance contractor were determined in the course of research for the History of the Bonding Program and are discussed in the Final Report, Volume I.

4. Evidence suggests that the basic expectation of the bonding program designers has been met, namely that the bonding program has helped large numbers of individuals to get jobs which they were barred from holding because of the restrictive clause in standard blanket bonds.

A good deal of the evidence for this conclusion is based upon analysis of all bondees and is therefore fully trustworthy. Some of the data are based only on Illinois bondees and thus the conclusion depends

in part upon an assumption that the Illinois bondees are typical. Thus, for example, the vast majority of bonding program participants in Illinois have been ex-offenders and (at least in Illinois) these participants appear to be remarkably typical of the ex-offender population as a whole in terms of demographic characteristics.

Additional findings supporting this conclusion are based upon the responses of fewer than fifty employers to a mailed instrument. As such, there is some question as to how far they can be generalized. Nevertheless, as stated in Volume II, Section 3.2, a majority of the employer respondents required bonding for all of their employees, thereby ruling out the possibility that they would employ anyone who could not get such coverage. The importance of the restrictive clause in the standard blanket bonds is underscored by the fact that the majority of the employer respondents indicated that they used blanket bonds.

5. There are some indications that the bonding program has helped participants to get better jobs than they would otherwise have gotten.

As is discussed in Volume II, Section 3.4, the results of the bondee followup mailing indicate that the majority of responding bondees report significant increases in salary between their jobs prior to the bonding program and their current employment. A majority of these bonding program respondents report retention on the bonding job of one year or more; job satisfaction is one factor which may help to explain this finding. It should be stressed however, that these findings are based upon a four to six per cent response rate to our mailing (and represent only about one percent of the total number of bondees). Therefore, extreme caution must be used in generalizing from this group to the entire bondee population.

6. The expectations of the bonding program designers with respect to the trustworthiness of most ex-offenders appear to be justified.

As is discussed in Volume II, Section 2.3.2, approximately one in fifty bondees has been the subject of a paid claim, yielding a "2% default rate." There is no way to compare this figure with the "default rate" in standard commercial bonding, but the result is considered significant in itself by Department of Labor staff, given the criminal records of the vast majority of bondees.

7. There is no objective basis in the available data for resolving the dispute between employers and insurers as to whether or not the former tend to use "unbondability" to cover up unwillingness to hire ex-offenders.

Insurance industry spokesmen have indicated that there is less of an "unbondability" problem than is often assumed; they maintain that, in most cases, they are willing to make exceptions to the exclusionary clauses whenever employers give them good reason to do so. This position has been taken by a number of individuals both in the industry trade association and in the fidelity bonding departments of America's largest insurors.

On the other hand, as indicated in Volume II, Section 3.2, the respondents to the employer followup questionnaire indicated that requests for exceptions are turned down about as often as they are approved.

8. There have been no major changes in fidelity bonding industry practices which can be attributed to the bonding program.

9. There is little likelihood of fidelity bonding industry change in the future based upon the criterion of profitability of bonding "unbondables".

Although the analysis of the loss experience of the program in Volume II, Section 2.3.1 indicates that the loss ratio for the bonding program is lower than the comparable ratio for the insurance industry as a whole, there are a number of unverifiable points made by leaders of the insurance industry which tend to reduce the importance of this finding from the insurors' point of view.

10. A number of important questions concerning the need for fidelity bonding and the impact of the program remain unanswered at this point. These questions involve:

    a. The incidence of fidelity bonding in different occupational groups and geographic locations.

    b. The average level of coverage of bonding for specific jobs and industrial categories nationwide and within specific geographical areas.

As in indicated in Volume II, Section 3.2, the Surety Association of America has only limited data on the incidence of fidelity bonding nationwide and in specific industrial classifications. Although the Surety Association estimates that only 15-20% of those who might be covered by such bonding are in fact covered, there are no comprehensive statistics concerning variations in utilization of fidelity bonding in different industries and geographic regions. Similarly, there are no available statistics concerning the average amounts of coverage. The fact that roughly half the bondees were covered for the maximum amount ($10,000) suggests that the limit may be too low and that bondees may be excluded from certain jobs in certain industries because of this limitation. The above-cited data gaps make it impossible to resolve this issue.

11. Lack of appropriate data makes it difficult to interpret the wide variation in program utilization definitively. The available data raise--but fail to resolve--such questions as the following:

    a. Why are there such wide variations in the proportions of bonding activity in different occupational groups and geographic areas? Are these disproportions reflective in any way of Employment Service practices?

    b. Why are there such variations in length of time bonded? Why, in particular, were one-quarter of the bondees covered for only one or two months? If the bondees left their employers after this short period of time, what can be done to improve the bonding program retention rate? On the other hand, given the finding that a significant proportion of respondents to the bondee followup mailing reported retention of four years or more, is there anything that can be learned from these "exemplary" placements that can be used to improve the placement process for others?

c. Why are there such variations in the proportions of filed claims among different industrial classifications and geographic areas?

Many of these questions could be answered through an experimental effort to keep detailed records of job development and other contacts with potential employers of bondees and improved periodic followup with bondees and their employers. (The finding that nearly one in six respondents to the bondee followup mailing indicated that they left their bonding employment prior to the recorded termination date on the McLaughlin monthly progress reports also suggests that additional attention may need to be paid to followup activities.)

This experimental followup activity could begin after the initial referral and could continue both while the bondee remains on the job and for several years thereafter.

12. There is some evidence that the program operates more actively when expansion or modification focuses attention on the bonding program at the local level.

As is discussed in the History of the Bonding Program, it was believed that the initial failure of the bonding program to produce more placements was, in part, the result of lack of efforts to "push" the program among ES staff and among employers. The December, 1966 meeting of bonding Sponsors which stressed the need to promote the program was followed by a pronounced increase in bonding activity.

As is discussed in Volume II, Section 2.2.3, there appears to be a general pattern in utilization of bonding within a state or locality; bonding activity peaks within a year or two of implementation of the project, then slowly declines. Analysis of placement data suggests that this pattern was interrupted by the decision to "go national" and the subsequent issuance of new administrative directives. Thus, for example, six of the states had statewide bonding

activity prior to 1971, when the program was expanded to a national scope. Bondings went up during the first year of the national program in five of the six states (the one state that did not fit this pattern witnessed an enormous jump in bonding activity the year after). This finding may be caused by a number of factors, but certainly the attention given to the program by ES staff is likely to be one of them.

6.0 RECOMMENDATIONS

The following recommendations are based upon data presented in both volumes of the Final Report. Recommendations for Departmental action are presented first; they are followed by recommendations for further research on the program.

6.1 Action Recommendations

1. The Department of Labor should continue funding fidelity bonding activities utilizing an underwriter/contractor and the current program design and administrative structure pending the results of research which can suggest methods for improving program effectiveness.

While definitive conclusions on the results of the bonding program cannot be drawn from the available data, the program does appear to have achieved significant results for at least some ex-offenders, at a relatively low cost. Available evidence suggests that the program has enabled many ex-offenders to get jobs which they could not otherwise have obtained. Bondee earnings and retention data, as well as the satisfaction expressed by bondees and their employers, provide strong indications of positive impact.

Finally, and perhaps most importantly, the program does provide a service which does not appear to be duplicated anywhere else. Without such a program, there would apparently be no way in which large numbers of ex-offenders could be placed in jobs which require bonding.

On the other hand, the variability in program outputs suggests that there is a potential to effect changes which can improve overall program performance in many respects. Some of the directions which should (and should not) be taken have become clear during the conduct of this study. Thus,

for example, the program designers had been considering the possibility of "eliminating the middle man" and creating a bonding program in which the United States Government provides insurance coverage directly. There is little evidence to support such an alternative at the present time. Calculation of the costs of this option is beyond the scope of this study, but as is noted in Volume II Appendix H, the General Accounting Office recently recommended rejection of the "self-insurance" option in the case of a related U.S. Government surety bonding program. A careful study of the costs and manpower requirements for U.S. Government "self-insurance" should be completed before this alternative is given serious consideration.

On the other hand, there are no data whatsoever concerning many other administrative arrangements for the program. Suggestions for collecting needed data are included in Section 6.2 below.

2. The Department of Labor should immediately implement procedures for improved followup of bondees.

Improved followup would serve both immediate operational and longer range research purposes. Operationally, improved followup could become an integral part of a broader system to insure that bonding program funds are being effectively spent. Roughly one in six respondents to the bondee followup mailing indicated that they had left their bonding jobs prior to the date recorded on the McLaughlin monthly progress reports. Regardless of whether or not the one in six ratio is representative of the bondee population as whole, this finding points up the fact that there is a potential for misallocation of funds in the "bonded until further notice" system in which an individual is covered under the program until the employer takes some positive action to terminate the bond. Since the employers are not paying anything for the bond, they have little incentive to report terminations promptly.

Consideration should therefore be given to development of a followup system in which a bondee is dropped from the rolls unless evidence is received stating that he is still employed at the bonding job. This system could also be adapted to accomplish the research purposes described in Section 6.2 below in which the data from improved followup could be used to help plan and implement improved administrative procedures throughout the counselling, placement, and followup processes.*

While the benefits from improved followup are clear, the costs of such activity are not. The Department may, therefore, wish to test a variety of followup procedures on a pilot basis before selecting the one to be implemented nationwide.

3. The Department of Labor should review the results of this study with the leadership of the fidelity bonding industry in order to explore whether or not any further efforts at institutional change appear worthwhile.

It is by no means clear that contacts with the leadership of the Surety Association of America and fidelity bonding specialists among leading underwriters will result in any concrete benefits to the program. But the potential exists. Possible benefits include the following:

- Provision of "technical assistance" to the Department by insurors concerning possible improvements in the design and administration of the Federal Bonding Program.

- Discovery of means whereby underwriters might be pursuaded to increase the frequency of their coverage of ex-offenders on a case-by-case basis, or develop some version of "assigned risk pools" for ex-offenders.

While it does not seem likely that major changes in insurance industry practice will be promoted by the data contained in this Final Report, the reactions of industry experts to these data may provide the Department with useful insights in refining and improving the program model. Meetings on this

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* These further uses of follow-up data are discussed in Section 6.2 below.

topic may well pave the way for further government-industry cooperation. At minimum, such meetings would meet the expressed desires of fidelity bonding specialists to learn more about the Federal efforts.

The Canadian experience with fidelity bonding of ex-offenders provides some (albeit speculative) evidence that American insurors may be persuaded to cover a larger proportion of ex-offenders than they now are willing to accept. As is discussed in Volume II, Appendix G, Canadian insurors have entered into an agreement with the government to consider applications for ex-offenders if they are recommended by parole officers, probation officers, or members of voluntary after-care agencies. This voluntary program has served only a limited number of ex-offenders, but virtually all of these recommendations have been accepted. There would, therefore, seem to be at least potential for a similar arrangement in the United States.

6.2 Research Recommendations

Despite the conclusion that the bonding program appears to have demonstrated its utility, the data suggest a number of areas where further research might promote refinement of the program design and administrative structure in order to improve program performance. In many cases, basic data concerning the role of fidelity bonding in the economy are not available. In order to determine whether or not the bonding program is currently reaching all those who might benefit from it, the following recommendation should be implemented:

4. The Department of Labor should carry out research to answer the following questions:

   a. What is the scope of fidelity bonding requirements in the United States?

b. How do fidelity bonding requirements vary among different industrial classifications and geographic areas?

In addition, there are a number of findings concerning variations in program utilization which can be explained by several factors, only some of which relate to program design and administration. In order to distinguish between these and other factors:

5. The Department of Labor should carry out research to answer the following questions:

   a. Why has bonding activity been disproportionate among specific industrial classifications and geographic locations?

   b. Why has the claims experience been disproportionate among certain industrial classifications?

As was indicated in Section 5.0 of this Report, there is a wide range of findings which raise questions concerning the specific elements of the bonding program model. In order to answer them:

6. The Department of Labor should carry out research to answer the following questions:

   a. Why do significant proportions of bondees apparently leave their bonding jobs after only a month or two?

   b. To what extent is the bonding program information system failing to provide up-to-date information concerning tenure of individuals in bonded jobs?

   c. Why do some placements result in significantly longer retentions than do others?

   d. To what extent has the $10,000 limit excluded bondees from certain jobs?

Many of these questions are unanswerable today because of difficulties in contacting bondees and employers many years after they have concluded participation in the program. The followup activities described in recommendation #2 above should, therefore, also be designed to provide (at least on a pilot basis) the kinds of information needed to answer these questions.

Completion of this research would enable the Department to promote strengthening of the counselling, placement, and employer relations activities of the public Employment Service through provision of information on:

- The kinds of jobs which usually require bonding and those which do not
- The kinds of jobs in which bondees have been most "successful", i.e., those with lower turnover, lower default, and higher pay.

This in turn would give job developers a "tool" which could be used in creating a wider pool of openings suitable for bondees and for planning of employer contact activities. Similarly, it would provide additional guidance to ES counsellors in their efforts to find satisfactory placements for ex-offenders. In short, collection and analysis of followup data should enable the Employment Service to minimize inappropriate referrals and hence achieve its twin objective of improving service to employers and service to disadvantaged job seekers.

With the collection of systematic followup data, it would then be possible to carry out the following recommendation:

7. The Department should seek to determine whether or not there exist correlations between specific administrative procedures and "success" in the bonding program.

Examination of the Employment Service Local Office procedures by which the bonding program is administered is beyond the scope of the current research. But the wide variations in program outputs discussed in this volume of the Final Report raise the possibility that some Sponsors have developed procedures which contribute to better placements and longer retention.

Once better output data is available, it should be possible to determine whether or not whether or not there are relationships between any measurable outputs and such administrative variables as (a) whether or not bondees are treated as "special applicants" and referred to specialists and (b) the presence

or absence of related ex-offender activities in the State ES or Local Office such as the Model Ex-Offender Program (MEP). While it is unlikely that such research will produce definitive results, it may well suggest future directions for administrative strengthening of the bonding program.

The "categorical" nature of the bonding program as it is now administered suggests that it would be useful to explore ways in which some elements of decentralization can be included in the program model:

8. The Department should develop and test the feasibility of alternative bonding models which give a larger role to CETA Prime Sponsors.

There is a good deal of uncertainty concerning the appropriate role for the bonding program under CETA. This uncertainty results from the reference to "assisting in securing bonds" in the Title I listing of activities which may be included in a Prime Sponsor's comprehensive manpower program. At the same time, because of the preponderance of ex-offenders in the bonding program, authority for fidelity bonding activities appears also to be granted under the CETA Title III reference to "procedures to insure that (offender) participants are provided with such manpower training and support services which will enable them to secure and obtain meaningful employment."

Although these two bases for bonding authority create some ambiguity, it appears extremely unlikely that any Prime Sponsor would be able to contract for pre-arranged commercial bonding for its CETA trainees. Pending breakthroughs in the fidelity bonding industry, it would thus seem necessary for anyone wishing to arrange for bonding of ex-offenders to develop a nationwide contract with an underwriter similar to the existing Manpower Administration contract.

In short, it is difficult to conceive of an administrative structure for the bonding program which does not include a strong federal role. But the

exact nature of that role, and the relationship of the Department of Labor National Office bonding staff and CETA Prime Sponsors are by no means certain.

In planning the future relationship between the Department and CETA Prime Sponsors in the administration of the bonding program, it will be important to remember the language of the Comprehensive Employment and Training Act of 1973 and supporting regulations which stress the need to avoid duplication of efforts and to fund delivery agents of proven effectiveness.

Given this legislative mandate and the available data on bonding program administration, a wide range of options remains. Under one such option, bonding would continue to be available through all 2400 Local Offices of the Employment Service, as is currently the case, but Prime Sponsors would have the option of designating an additional agency as a bonding Sponsor as well. In cases in which Prime Sponsors are heavily utilizing the Employment Service for placement, they would have no reason to designate any additional Sponsors. But if the Prime Sponsors were using other agencies to accomplish the placement function, they would have the option of designating that additional agency as a bonding Sponsor as well. In all cases, the bonding units would be supplied "free" as part of a National Office appropriation, and the bonding Sponsor would be responsible for absorbing the administrative costs of the program.

The advantage of such a system is that it would give Prime Sponsors additional flexibility in utilization of the bonding program, enabling them to use agencies other than the Employment Service if they chose to do so. The disadvantages would include the additional administrative complexity resulting from the inclusion of additional bonding Sponsor, although this might be minimized

by utilizing a Statewide intermediate Sponsor playing a role similar to that which State ES offices currently play -- or continuing the use of the State ES agency as sponsor for all bonding in the State -- whether bonding was carried out by ES Local Offices or not.

Other options which entail using the availability of "free" bonding slots to Prime Sponsors as an incentive to promoting offender manpower activities also appear feasible and worthy of further consideration.

Finally, the need to conduct the research described above in a scientifically rigorous manner and to communicate the results of this research to key decision-makers in the insurance industry and the business community suggests that the research process could be strengthened if the Department adopts the recommendation that:

9. The Department should plan and implement the above described research utilizing an advisory committee composed of academic experts in manpower and criminology as well as other public and private sector participants.

The presence of academics on the committee would help to avoid many of the pitfalls of previously conducted research on offender rehabilitation. The public and private sector participants could provide practical input into the research design and data interpretation and could disseminate findings to their respective organizations.